

RATING REPORT

Taurus Securities Limited

REPORT DATE:

August 17, 2023

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Negative		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	August 17, 2023		March 24, 2022	

COMPANY INFORMATION

Incorporated in 1993	External auditors: BDO Ebrahim & Co. Chartered Accountants
Public Unquoted Company	Chairman of the Board: Muhammad Ismail Usuf
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Syed Zain Hussain
National Bank of Pakistan – 58.3%	
The Bank of Khyber – 30.0%	
Saudi Pak Industrial and Agricultural Investment Company Limited – 8.3%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Securities Firms (July 2020)

<https://docs.vis.com.pk/docs/SecuritiesFirm202007.pdf>

VIS Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Taurus Securities Limited (TSL)

OVERVIEW OF THE INSTITUTION

TSL is a public unlisted company incorporated in 1993. The company provides equity brokerage services along with financial/economic data research analysis. The head office of the company is located in Karachi, while a branch office is also present in Peshawar.

Profile of CEO:

Syed Zain Hussain holds a bachelor’s degree from South Eastern University in Marketing. He has over 20 years of work experience in stock brokering and fund management. His responsibilities at TSL include managing the overall operations and resources of the company and working with the board in developing & implementing strategies and making major corporate decisions.

RATING RATIONALE

Taurus Securities Limited (TSL) is a brokerage house that is majority owned by National Bank of Pakistan (NBP – rated ‘AAA/A-2’ by VIS), a state owned entity and one of the largest commercial banks in Pakistan. TSL offers both online and physical trading services to its clients.

Sector Update

Table 1: Industry Trading Metrics (Volume & Value) – Ready

PSX- All Share	FY18	FY19	FY20	FY21	FY22	FY23
Volume (In Billions)	43	37	49	131	73	47
Value (In PKR’ Billions)	2,027	1,549	1,789	4,781	2406	1504

- During FY22, the brokerage sector faced significant challenges due to the poor overall economic situation, a global decline in commodity prices, and political uncertainty. As a result, investor’s confidence was greatly impacted.
- After witnessing a significant surge in trading volumes in FY21, volumes have depicted a downward trajectory wherein the trading volumes declined by around 44% in FY22, followed by a further decline of around 35% in FY23.
- Accordingly, in tandem with trading volumes, brokerage revenues declined across the industry. This has dented the profitability of brokerage companies, some of which have slipped into losses. Additionally, low volume of IPOs resulting in reduced underwriting activity during FY22 also contributed to loss of revenue, during the year only three IPOs occurred raising a total of Rs.1.3b which is considered low as compared to FY21 whereby eight IPOs were witnessed raising over Rs.20.0b.
- Recently PSX has launched a new technologically advanced trading platform, called Designated Time Schedule (DTS), replaced by the old trading platform (KATS/Karachi Automated Trading System) due to hardware and software mismatch. The new system is expected to improve security features to better safeguard investors’ data and resolve complaints about data leakages and theft.
- In order to further facilitate brokerage houses and traders, PSX has planned to launch 15 new Trading Right Entitlement Certificates (TREC) licenses which is expected to bring ease for brokers fulfilling minimum financial requirements and to offer trade execution services to retail, institutional and foreign clients along with becoming underwriters for right shares issue and act as agents for share buybacks..

Key Rating Drivers:

Strong sponsor profile remains a key rating driver

- The assigned rating signifies strong sponsor support with majority shareholding of TSL vested with National bank of Pakistan (~58.3%). NBP is a state owned and the largest public sector bank in the country.

- Bank of Khyber (BoK) and Saudi Pak Industrial & Agriculture Investment Company (SAPICO) host the other major shareholding of TSL, accounting for around 30% and 8.3% respectively. Both parties possess sound risk profile.
- TSL derives support from the parent company in terms of business generation, and presence of seasoned professionals on the Board. In addition, TSL's rating also draws comfort from availability of borrowing lines from sponsors. .

Ratings are constraint by size of operations. Market share remains limited around 2%

- In CY22, TSL managed to recoup its market share, securing 8 domestic institutional clients. In 3M'23, TSL acquired 43 new individual/retail clients. The company's client mix is considered favorable, however overall size of operations remains constrained, with revenues further declining in CY22. Limited revenue streams and small market share have kept the revenues of the company subdued. Going forward, enhancing its client base to further boost its market share will remain important for ratings

Table 1: TSL Market Share (All share)

	CY20	CY21	CY22
Volume	1.94%	1.59%	2.18%

Table 2: P&L Statement (Extract)

	CY21	CY22	3M'23
Operating Revenue	155.6	124.9	22.5
- Commission Income	129.0	77.7	18.9
- Dividend Income	0.3	8.5	2.6
- Ready Future Trading Income	15.1	6.2	1.1
- Others	11.2	32.6	-
Operating Expense	142.5	126.6	30.5
- Administrative Overheads	137.3	119.7	29.5
- Finance Cost	5.1	6.9	1
Operating Profit/ (Loss)	13.2	1.5	2.8
Efficiency (Operating Expense / Operating Revenue)	91.5%	101.3%	135.5%
Surplus on Revaluation of investment at FVTPL	0.3	-	-
Other Income	0.2	0.1	10.8
Profit Before Tax	13.7	(1.5)	2.8
Profit After Tax	11.0	(8.3)	0.7
ROAA	1.1%	(-0.6)%	0.2%
ROAE	3.8%	(2.8)%	0.9%

- On average (CY20-22), about two-thirds of the brokerage commission emanates from institutional clients, with the remaining emanating from retail clients. The retail proportion has been increasing since 2018, given drop in corporate transactions. Trading in ready future arbitrage is also encompassed as part of the brokerage commission.
- Operating overheads declined in tandem with revenues. However, efficiency remained at higher levels in CY22 and subsequently deteriorated in 3M'23 on account of dip in recurring income. VIS has incorporated ready future arbitrage income as recurring revenue in the calculation of efficiency ratio. Maintaining operational efficiency at optimal levels will remain important from ratings perspective.
- Client concentration is considered low as top 66% of the revenue was contributed by 51 clients and the same has registered improvement on a timeline basis. Brokerage revenue continues to dominate the revenue mix of the Company, with 84% of the total revenue in 3M'23 stemming from the brokerage. This poses a higher business risk to the Company. Dividend income has

shown an uptick in CY22 and subsequently in 3M'23, albeit the contribution to total revenue remains minimal.

Ratings take comfort from low market and credit risk, albeit managing market risk in the future remains important.

Liquidity Risk

- TSL's liquid asset comprise of deposits from NCCPL & Pakistan Stock Exchange, Cash & Bank balance and short term investments amounting to Rs.575.5m at end-3M'23 (CY22: 509.8m, CY21: 803.1m).
- TSL's liquid assets coverage as a percentage of total liabilities has increased to 87% at end-3M'23 as compared to the 50% in CY22, reflecting an improvement on account of a substantial decline in the total liabilities of the Company.

Credit Risk

- TSL's credit risk emanates primarily from its trade debt profile. Trade receivables of the Company has witnessed a decline to stand at Rs.265.2m in 3M'23 (CY22: 669.4m, CY21: 411.1m) off which Rs.255.2 are due from NCCPL, bearing no risk while the remainder are due from clients and associated companies.
- Majority (>90%) of the corporate commission is received through IDS and their transactions are settled directly with CDC without funding by the broker, thereby mitigating credit risk. The company has limits in place for institutional clients, depending on counterparty risk profile.

Market Risk

- During CY22, TSL disposed off its short term investment resulting in significant decline to 12.3m (CY21: 160m).
- Stock market exposure is limited to ready-future arbitrage transactions in review period that entails no market risk; however, limited amount of settlement risk prevails.
- Going forward, as per management's plans, TSL is expecting to raise short term investment to diversify its revenue stream by capitalizing on potential future arbitrage earnings. However, managing market risk will remain critical.

Size of equity is a constraint to future growth of the Company

- TSL disposed of its short term investment to the tune of 148m due to subdued market conditions and political turmoil and paid off its short term loans, which has reduced to Rs. 24.1m at end-3M'23 (CY22: Rs. 37.3m, CY21: Rs. 201.7m).
- On the back of reduction in short term loans, TSL's gearing indicator has depicted improvement, which stood at ~0.12x and ~0.08x in CY22 & 3M'23 respectively. Similarly, leverage ratio has also reflected the same which has dropped to 2.19x (end-CY22: 3.3x, end-CY21: 3.2x) at end-3M'23.
- While the company draws support from the sponsor profile of TSL, as sponsor has committed to inject liquidity on need basis and also made credit lines available to the company, future growth of the Company remains constrained due to size of equity. Enhancing the equity base

will remain important for supporting the capacity of the Company to perform and grow business volumes.

Adequate corporate governance framework

- The assigned ratings signify TSL's operational status as a Public Unlisted Company.
- There has been no change in senior management since the last rating action.
- Board of directors comprises of seven members including CEO. The independent representation consists of three board members while the remaining are nominee directors. There is a female representation on board as well.
- Board sub-committees include Audit, HR and Risk Management committees.
- There is an in house internal audit function, which administratively reports to CEO and functionally to Audit committee, while another control department i.e. compliance, reports to CEO and to the Board.
- Adequate internal policy framework is present with professional code of conduct. Investment policy and employee trading policy are also in place.

FINANCIAL SUMMARY (amounts in PKR millions)				
	Dec'20	Dec'21	Dec'22	3M'23
<u>BALANCE SHEET</u>				
Trade Debts	41	411	669	265
Long Term Investments	-	-	-	-
Short term Investments	181	160	12	13
Cash and Bank balances	313	483	320	405
Total Assets	743	1,329	1,302	962
Trade and Other Payables	347	814	964	635
Short term borrowings	75	175	10	-
Paid Up Capital	135	135	135	135
Net Worth (excluding revaluation surplus)	290	297	292	293
<u>INCOME STATEMENT</u>				
Total Revenue	142	156	125	33
Brokerage Income	118	129	78	19
Dividend Income	-	0	8	3
Capital gain on sale of securities	13	15	6	1
Margin Trading System	11	11	3	1
Administrative Expenses	(126)	(137)	(120)	(30)
Finance Costs	(4)	(5)	(7)	(1)
Profit Before Tax	14	14	(2)	3
Profit After Tax	10	11	(8)	1
<u>RATIO ANALYSIS</u>				
Liquid Assets to Total Liabilities	143.6%	79.1%	50.9%	87.2%
Liquid Assets to Total Assets	83.9%	60.4%	39.2%	59.8%
Leverage (x)	1.40	3.24	3.33	2.19
Gearing (x)	0.28	0.64	0.12	0.08
Current Ratio (x)	1.57	1.23	1.22	1.33
Efficiency (%)	90.7%	91.5%	101%	92%
ROAA (%)	1.5%	1.1%	-0.6%	0.2%
ROAE (%)	3.6%	3.8%	-2.8%	0.9%

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Taurus Securities Limited				
Sector	Brokerage				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	08/17/2023	A	A-2	Negative	Maintained
	03/24/2022	A	A-2	Stable	Reaffirmed
	01/18/2021	A	A-2	Stable	Reaffirmed
	12/03/2019	A	A-2	Stable	Reaffirmed
	12/31/2018	A	A-2	Stable	Reaffirmed
	10/02/2017	A	A-2	Stable	Reaffirmed
	06/28/2016	A	A-2	Stable	Reaffirmed
	11/21/2014	A	A-2	Stable	Reaffirmed
	12/31/2013	A	A-2	Stable	Reaffirmed
	11/26/2012	A	A-2	Stable	Upgrade
	12/23/2011	A-	A-2	Stable	Reaffirmed
01/03/2011	A-	A-2	Stable	Reaffirmed	
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings	S.no	Name	Designation	Date	
	1.	Syed Zain Hussain	CEO	27 th June, 2023	
	2.	Syed Waqar Ul Hassan	CFO	27 th June, 2023	
	3.	Iqbal Rasheed	Chief Internal Auditor	27 th June, 2023	